

III Year-End Closing - Fiscal Month 13 Processing

This chapter discusses the entries and processes that departments must complete after adjusting entries are posted. The automated year-end closing process is controlled by the Organization Control (OC) Table. See Volume 2, Chapter IV, Subchapter IV-OC, for a detailed explanation of the OC Table Indicators.

The new year OC Table is used for all FM 13 processes.

YEAR-END COST ALLOCATION OPTIONS

Any FM 13 accrual or adjustment entries that affect expenditures and encumbrances must be cost allocated and fund split. Before running cost allocation/fund split for FM 13, post all adjusting entries and other expenditure entries to FM 13.

See Exhibit III-1 for a summary of year-end cost allocation indicator options. Although four options are listed, most departments select only **OPTION #3** for their FM 13 cost allocation process. Exhibit III-2 shows the various activities and the allocation base used.

EXHIBIT III-1
YEAR-END COST ALLOCATION RUN INDICATOR OPTIONS

To run the year-end cost allocation of accrued expenditures and/or encumbrances, one of the following combinations of run indicators must be set in the **new year** OC Table.

NOTE: Since multiple cost allocation processes may be run in one month, the Last Step Run Indicator must be set to **00** to start the current requested process.

<u>OPTION</u>	<u>SYSTEM ACTION</u>	<u>COST ALLOCATION RUN IND</u>	<u>COST ALLOCATION RUN TYPE</u>	<u>ENCUMB- ALLOC IND</u>
1	Allocate / Fund Split expenditures recorded as FM 13 activity only.	A, C, Y	A	N
2 ^{1/, 2/}	Allocate / Fund Split encumbrance year-to-date (including FM 13) balances (records this activity in GL 6151 to keep separate from monthly encumbrance activity in GL 6150).	A, C, Y	A	E
3 ^{1/, 2/}	Allocate / Fund Split both expenditures and encumbrances at the same time.	A, C, Y	A	Y
4	Allocate Variances (PCA Dist. Type 6) - only for those departments that use standard costed PCA(s). Under the standard Costing Method, encumbrances are never allocated.	A, C, Y	Y	N

See Exhibit III-2 for the descriptions of the allocation base used.

^{1/} If your OC Table PCA Method = 2, do not allocate encumbrances more than once.

^{2/} Once the entry is made to adjust the allocated encumbrances credit from Administration to Distributed Administration, encumbrances cannot be reallocated.

EXHIBIT III-2
EXPENDITURE vs. ENCUMBRANCE ALLOCATION

<u>Activity</u>	<u>Allocation Base Used</u>
Current Year Expenditures (Year Being Closed)	
<u>MONTHS 01-12</u> Run type S	Prior month activity.
Run type C	Cumulative from inception through PM activity.
<u>MONTH 13</u> Run Type A ^{1/}	Cumulative from inception through FM 13.
Current Year Encumbrances (Year Being Closed)	
<u>MONTHS 01-12</u> Run type S or C ^{2/}	Cumulative from inception through PM activity for both run types.
<u>MONTH 13</u> Run Type A ^{1/}	Cumulative from inception through FM 13.
Prior Year Expenditures And Encumbrances	
<u>MONTHS 01-13</u> Run type S or C ^{1/}	Cumulative from inception through PM activity.
Run Type A ^{1/}	Cumulative from inception through FM 13.
<hr/> ^{1/} When FM 13 and all prior years are allocated, PCAs defined as Cost Allocation Table Distribution Types 1, 2, or 3 (the standard costing methods) are treated as Distribution Type 5, which uses the Object Range Low of 00100 to Object Range High of 19900 (Personal Services) to determine the distribution base.	
^{2/} When distributing encumbrances, the Credit PCA assigned in the Cost Allocation Table is always ignored, and the credit is recorded to the PCA being allocated.	

OPTION #1 – Cost Allocate/Fund Split Fiscal Month 13 Expenditures Only

To run cost allocation/fund split for FM 13 expenditures only, use the new year OC Table to set the following indicators:

RUN COST	=	A, C or Y
RUN TYPE	=	A
ENCUMB ALLOC	=	N or Blank
LAST STEP RUN	=	00 (Zero-Zero)

FM 13 expenditures should not be allocated more than once.

OPTION #2 – Cost Allocate/Fund Split Fiscal Month 13 Encumbrances Only

Encumbrances remaining in the Clearing Account after adjusting entries have been made must be cost allocated and fund split to their ultimate funds. The allocation of encumbrances is based on the department's cost allocation tables, but the credit is always back to the same PCA where the encumbrance was established. (Expenditures can recover in the same or different PCAs.) The fund split of encumbrances is based on the funding percentages contained in the PCA table.

NOTE: Allocated encumbrances at year-end do not post to the Grant Project File. Therefore, these encumbrances are not reflected on the F01, Summary of Project Revenues and Expenditures Report.

To run cost allocation/fund split for FM 13 encumbrances only, use the new year OC Table to set the following indicators:

RUN COST	=	A, C or Y
RUN TYPE	=	A
ENCUMB ALLOC	=	E
LAST STEP RUN	=	00 (Zero-Zero)

Unlike the cost allocation of expenditures, encumbrances may be allocated as many times as necessary. (There are two exceptions—see the Exhibit III-1 footnote.) Subsequent allocations reallocate only those items that have changed from the previous allocation.

OPTION #3 – Cost Allocate/Fund Split Fiscal Month 13 Expenditures and Encumbrances

FM 13 cost allocation/fund split of both expenditures and encumbrances can be processed at the same time. Option #3 takes the fewest days to complete and avoids potential OC Table maintenance errors.

To run cost allocation/fund split for FM 13 expenditures and encumbrances at the same time, use the new year OC Table to set the following indicators:

RUN COST	=	A, C or Y
RUN TYPE	=	A
ENCUMB ALLOC	=	Y
LAST STEP RUN	=	00 (Zero-Zero)

This option should be run only once.

OPTION #4 – Cost Allocate/Fund Split Year-End Variance

This option is for departments that use standard costing PCAs. Variances created during the year that have not been allocated and those created after FM 13 cost allocation must be allocated in the year-end variance cost allocation/fund split process.

To run cost allocation/fund split for FM 13 variances, use the new year OC Table to set the following indicators:

RUN COST	=	A, C or Y
RUN TYPE	=	Y
ENCUMB ALLOC	=	N
LAST STEP RUN	=	00 (Zero-Zero)

This option can be run only once.

PREPARE PRELIMINARY FM 13 RECONCILIATIONS

After the FM 13 cost allocation/fund split process is complete (including the correction of all resulting errors) departments should prepare preliminary FM 13 reconciliations. Request the reports (use Prior Year option—**PY**) needed to prepare the preliminary FM 13 reconciliations. These reports include the HB4, G01, DB1, DB2, D16, B03, B04 and S01. Any CALSTARS reconciling items found during this process need to be corrected with additional entries to CALSTARS. Any entries made affecting GL 9000 must be manually cost allocated and fund split.

At this time, departments should also request a B06 or N10 Report to review all appropriations for over-expenditures or inappropriate costs. Since the manual process of reclassifying the allocated encumbrance credit in Administration will not be performed until later, a Q14 or Q16 Report at a level that shows Administration separate from Distributed Administration may be used to determine the true balance

of Administration (see the *Reclassify Allocated Encumbrance Credit in Administration* section later in this chapter).

After reviewing the preliminary FM 13 reconciliations and the B06 Report, departments may find that budgetary expenditures (expenditures plus encumbrances) exceed appropriation, fund and/or cash balances. If this is the case, review the correctness of encumbrances, accruals and expenditures. If adjustments are necessary due to incorrect entries, refer to the subsequent section titled *Correct Encumbrance or Accrual Entries/Allocation* for instructions. For funds where revenue collections must be considered, verify that all receipts earned have been billed and/or accrued and revenues received in advance do not contain receipts for the current accounting period (B04, F01, and G02 reports).

In most departments, the year-end review of budgetary expenditures is done in conjunction with Budget Office staff. If a scheduled line, appropriation, fund or cash in a fund is overexpended, adjustments must be made prior to statement preparation. It may be necessary to move expenditures/encumbrances, submit a Budget Revision or Deficiency Request, request a loan, or other appropriate action. Under no circumstances should the Accounting Office reverse accruals, expenditures, or encumbrances that are legitimate costs of a program or category.

Making Adjustments after FM 13 Cost Allocation/Fund Split

To make expenditure/encumbrance adjustments after FM 13 cost allocation/fund split, FM 13 must be reopened by setting the OC Table Prior Year Open indicator to Y. If encumbrance adjustments are needed, it may be possible to re-run the encumbrance allocation (see Option 2 in the preceding section), however, once manual encumbrance adjustments are entered (TC 312/TC 316), the automated encumbrance allocation process should **not** be used. The following describes some adjustments that may be necessary:

Move Encumbrances to New Year

If appropriate, do the following to move encumbrances to the new year:

1. Disencumber encumbrances in FM 13
 - ✪ Use TC 213 in FM 13 to shift encumbrances to the new fiscal year; and
 - ✪ If the encumbrances are not direct charged to the appropriation being adjusted (i.e., they are in the Clearing Account), reallocate encumbrances (see Exhibit III-1, Option 2) or manually adjust allocated encumbrances. If allocated encumbrances are manually adjusted, use TC 312 to post to the Clearing Account and TC 316 to post to the appropriation being adjusted using the ultimate funding information.

2. Re-establish encumbrances in the new fiscal year

Use TC 211 in the new fiscal year (CM or PM) using the new year Indexes/PCAs to re-establish the encumbrances with the revised funding. An alternative process is to use TC 211 with a zero amount and TC 212 with the actual amount. TC 211 establishes the document and TC 212 places the encumbrance amount in the adjustments field, since it is not a new encumbrance.

Move Expenditures to Another Appropriation

If appropriate, do the following to transfer the overexpended appropriation amount to an underexpended appropriation.

1. Credit overexpended appropriation - Lump Sum

- ✧ Use TC 315;
- ✧ Use an department-wide Index Code;
- ✧ Use an appropriate PCA that looks up the overexpended appropriation and scheduled line in the appropriation;
- ✧ If appropriated by program, use Object Detail **191** for Personal Services, Object Detail **591** for Operating Expenses or Object Detail **691** for Unclassified;
- ✧ If appropriated by category, use Object Detail **191** for Personal Services and/or Object Detail **591** for Operating Expenses; and,
- ✧ Enter the ultimate AS, FS, Fund, Fund Detail and Method exactly as originally charged. (Must override disbursing AS and Fund.)

2. Debit underexpended appropriation - Lump Sum

- ✧ Use TC 311;
- ✧ Enter the same Index Code as Credit Index Code;
- ✧ Use an appropriate PCA that looks up the underexpended appropriation and scheduled line in the appropriation;
- ✧ Enter the same Object Detail as the Credit Object Detail; and,
- ✧ Enter the ultimate AS, FS, Fund, Fund Detail and Method selected for transfer. This coding may be contained in or added to PA table. (Must override disbursing AS and Fund).

Correct Encumbrance or Accrual Entries/Allocations

1. Identify the original incorrect entry and record reversing or adjusting entry. For example, an erroneous expenditure accrual recorded with a TC 215 would be reversed with a TC 215R. If the PCA(s) used in the correcting entry is an Indirect PCA(s), corrections must be manually cost allocated to identify the specific direct PCA(s) to post to the ultimate funds as described below.
2. If any of the above corrections are posted to the Clearing Account, the effects of these corrections on the ultimate funds/appropriations must also be recorded.
 - a. If encumbrances are adjusted in the Clearing Account, reallocate encumbrances (see Exhibit III-1, Option 2); or, manually adjust allocated encumbrances.
 - 1) For entries reducing encumbrances, enter TC 210 or TC 213 in the Clearing Account. Then enter a TC 312 in the Clearing Account, using the PCA's disbursing fund and a TC 316 in the appropriation being adjusted, using the PCA's ultimate funding information.
 - 2) For entries increasing encumbrances, enter TC 211 or TC 212 in the Clearing Account. Then enter TC 316 in the Clearing Account, using the PCA's disbursing fund and a TC 312, in the appropriation being adjusted using the PCA's ultimate funding information.
 - b. If expenditures are adjusted in the Clearing Account, TC 311s and TC 315s must be entered to manually perform fund distribution to the ultimate funds.
 - 1) For entries crediting expenditures, enter TC 311 transactions in the Clearing Account (disbursing funding) and TC 315 transactions for the ultimate fund by coding the PCA's ultimate funding information.
 - 2) For entries debiting expenditures, enter TC 315 transactions in the Clearing Account (disbursing funding) and TC 311 transactions for the ultimate fund by coding the PCA's ultimate funding information.

Correct Variances in Indirect Cost Centers Funded by the Clearing Account

1. Analyze CA Table to determine where variance should be charged.
2. Enter TC 311 (Charge):
 - Use Index and PCA determined from the analysis
 - Use Object per CA Table (Charge Object)
 - Charge ultimate Appropriation Symbol (AS), Fund Source (FS), Fund, Fund Detail and Method of PCAs being charged (must override disbursing AS and Fund).

3. Enter TC 315 (Credit):

- Use Index, PCA, Object, AS, FS, Fund, Fund Detail and Method as shown on CA Table for recovery.

RECORD YEAR-END PFA

FM 12 and FM 13 cost allocation occurs after the SCO closes the appropriation accounting records. After FM 13 cost allocation is complete, the GL 6297-Allocation Clearing Account remaining balances represent a reconciling item between the department and SCO year-end appropriation balances. This reconciling item is displayed in the SCO/CALSTARS appropriation reconciliations as an "Adjustment Per DB1" for PFA Pending. The PFA Pending amount must be reported as a "Due To" or "Due From" accrual in the year-end financial statements. Reclassification entries must be posted to move the GL 6297 account balances to GL 3110-Due to Other Funds or GL 1400-Due from Other Funds to properly report the accrual.

Using a FM-PY DB1 report, develop a reclassification worksheet (See Exhibit III-3 for an example). Make a list of each appropriation and its corresponding GL 6297 balance from the DB1 Report (ending balance column). Determine the adjusting entries that correspond, as follows:

Clearing Account:

TC 540 - Reclass 6297 - Establish **Due From** Other Funds
Dr. 1400 Due From Other Funds/Appns
Cr. 6297 Allocation Clearing Account

AND

Program or Fund Receiving Charges:

TC 541 - Reclass 6297 - Establish **Due To** Other Funds
Dr. 6297 Allocation Clearing Account
Cr. 3110 Due to Other Funds or Appropriations

Once the PFA reclassification entries are made, the balance for GL 6297 on the DB1/DB2 Report should be zero. If the amount is not zero, adjusting entries for GL 6297 are not complete.

The department prepares a Plan of Financial Adjustment transfer request after completing the year-end cost allocation and fund distribution. The PFA transfer request will include expenditures for both FM 12 and FM 13.

These entries are reversed in the new year.

NOTE: To have these entries automatically reversed during the Year-end Open process, they must be coded according to the Automated Accrual Reversal Process requirements discussed in Chapter II, section *Use of Fiscal Month 13 for Year-end Adjustments*.

EXHIBIT III-3
ADJUSTING ENTRIES FOR AN EXAMPLE YEAR-END PFA

From the DB1 Report Ending Balance Column:

<u>GENERAL FUND</u>	<u>GENERAL LEDGER 6297 PFA AMOUNT OUTSTANDING</u>	<u>TC</u>	<u>GL IMPACT</u>	
			<u>DR</u>	<u>CR</u>
PROG 10	-\$125	541	6297	3110
PROG 20	- 25	541	6297	3110
PROG 30	- 50	541	6297	3110
PROG 40 Administration	-20	541	6297	3110
Distributed Admin	20	540	1400	6297
CLEARING ACCT	245 (debit \$200) ^{1/}	540	1400	6297
	(debit \$50)	540	1400	6297
	(credit \$5)	541	6297	3110
 <u>FEDERAL TRUST FUND</u>				
PROG 10	-\$20	541	6297	3110
PROG 30	- 30	541	6297	3110
 <u>SPECIAL FUND</u>				
PROG 10	\$5	540 ^{2/}	1400	6297

^{1/} The Clearing Account entry for \$200 (TC 540) represents the amount due from the General Fund. The \$50 (TC 540) represents the amount due from the Federal Trust Fund and the \$5 (TC 541) is the amount "Due To" the special fund (see footnote 2/).

^{2/} The PFA amount outstanding in the Special Fund represents an abatement on a return of a previously estimated charge (i.e., GL 6297 balance on the DB1 is a debit). In this case, TC 540 is recorded in the Special Fund to establish a "Due From" and a TC 541 is recorded in the Clearing Account to establish a "Due To".

RECLASSIFY ENCUMBRANCES REPORTED AS ACCOUNTS PAYABLE

Encumbrances that are ultimately for a Governmental Fund or a General Obligation Bond Fund (classified as Funding Source **B** per the UCM) are not reclassified. Encumbrances that are ultimately for a Non-governmental fund or any Bond fund other than a General Obligation Bond Fund are reclassified.

Refer to Chapter V, Year-end Closing – Prepare Non-Governmental Fund Reports for detailed information about reclassifying encumbrances.

RECLASSIFY ALLOCATED ENCUMBRANCE CREDIT IN ADMINISTRATION

In CALSTARS, the allocation of encumbrances is based on the department's cost allocation tables, but the credit is always back to the same PCA where the encumbrance was established. Administration and Distributed Administration programs use different PCAs. To properly reflect the encumbrance balance, an entry is required to shift the credit balance in Object Detail 912 from the Administration PCA(s) to the Distributed Administration PCA(s). (This adjustment applies only to program appropriations.) To determine the amount of Allocated Encumbrances that must be shifted, request a "Q" (Q16 or Q14, as appropriate) report at the detail level after all encumbrance adjustments are completed and after the final encumbrance allocation process is completed. Make the following entries:

To the Administration PCA(s):

TC 312 - Encumbrance Fund Distribution - Charge - Annual
Dr. 6151 Allocated Encumbrances - Annual
Cr. 6156 Allocated Encumbrances - Offset - Annual

Use Index, PCA and Object Detail 912; override Fund, Fund Source, Appropriation Symbol, and Method.

To the Distributed Administration PCA(s)

TC 316 - Encumbrance Fund Distribution - Recovery - Annual
Dr. 6156 Allocated Encumbrances - Offset - Annual
Cr. 6151 Allocated Encumbrances - Annual

Use Index, PCA and Object Detail 912; override Fund, Fund Source, Appropriation Symbol and Method.

After these entries have processed, request another B06 Report. This should be the final year-end B06 Report. An example of this adjustment is shown in Exhibit III-8.

These entries are **NOT** reversed in the new year.

EXHIBIT III-4

ENCUMBRANCE ALLOCATION IN ADMINISTRATION			
ADMINISTRATION Program 40.01 PCA 40001		DISTRIBUTED ADMINISTRATION Program 40.02 PCA 40002	
Q REPORT: <u>Object</u> 226 243 464 TOTAL	<u>Encumbrance</u> \$10 12 <u>13</u> \$35		
AFTER ENCUMBRANCE ALLOCATION: Q REPORT: <u>Object</u> 226 243 464 912 TOTAL	<u>Encumbrance</u> \$10 12 13 <u>(35)</u> \$ 0		
ENTER TC 312: Index, PCA, Object 912 Override: Fund, FS, AS, Method		ENTER TC 316: Index, PCA, Object 912 Override: Fund, FS, AS, Method	
AFTER TC 312: Q REPORT: <u>Object</u> 226 243 464 912 TOTAL	<u>Encumbrance</u> \$10 12 13 <u>0</u> \$35	AFTER TC 316: Q REPORT: <u>Object</u> 912 TOTAL	<u>Encumbrance</u> <u>\$(35)</u> \$(35)

ENTER SUBSIDIARIES FOR GL 1390 AND GL 1600

GL 1600-Provision for Deferred Receivables is an offset account to:

- GL 1315-Accounts Receivable Dishonored Checks;
- GL 1316-Accounts Receivable Cash Shortages;
- GL 1319-Accounts Receivable Other;
- GL 1340-Accounts Receivable Audit Exceptions; and
- GL 1380-Contingent Receivables.

At year end, departments must report the amount of each GL that is offset by GL 1600. This is done by adding Subsidiary numbers to GL 1600 to identify the amount of each offsetting account. During the year, GL 1600 is not recorded with Subsidiary information. TC 593 allows departments to add a Subsidiary to GL 1600. The numbering convention for the Subsidiary number is **nnnn0000**, where **nnnn** is the GL being offset. All Subsidiary numbers must first be established in the D32 Subsidiary Descriptor Table.

To identify the amount of each account offset by GL 1600, sum the G02 Report, Pre-Closing Trial Balance, amounts for the GLs shown above. If the total equals the amount of GL 1600 on the G02 Report, Pre-Closing Trial Balance, then these balances will be used to post the Subsidiary numbers. If they do not equal the GL 1600 amount, further analysis is required to determine the amount by GL that is offset. Look at the impact of the A-9, A-10 and A-12 adjusting entries. If further analysis is needed, research with the G03 Report, Trial Balance by Transaction Code. Make one summary entry for each offsetting general ledger account.

If GL 1390-Allowance for Uncollectible Amounts is used, Subsidiary numbers must be added as described above, using TC 592.

TC 592 and TC 593 are reversed in the new year. Auto-reverse batches are recommended for these entries.

NOTE: After the TC 592 and TC 593 are posted, review the G02 Post Closing Trial Balance to ensure that the total of the Debits column equals the total of the Credits column. If these entries are not made, the G02 Report, Post Closing Trial Balance, will display an out of balance message at the bottom of the report.

RECLASSIFY FUND BALANCE CLEARING

During the Year-end Closing process, CALSTARS generates entries to close the nominal accounts to a Fund Balance account. The system closes nominal accounts for General Fund and other shared funds (identified in D22-Fund Descriptor Table as a shared fund) into GL 5570-Fund Balance-Clearing. The nominal accounts for non-shared funds (identified in D22-Fund Descriptor Table) close to GL 5530-Fund Balance-Unappropriated. However, the nominal accounts for proprietary non-shared funds (identified in D22-Fund Descriptor Table also with GAAP indicator of E or I) close to GL 5540-Retained Earnings.

The impact of these entries is reflected in the G02, Post Closing Trial Balance. If it is determined that amounts appear in more than one fund balance GL or in the wrong fund balance GL, an additional manual entry is needed to correctly reclassify the fund balance to the proper account (e.g., Fund Balance-Clearing Account, Fund Balance-Unappropriated, or the Retained Earnings account).

If Fund Balance-Unappropriated has a credit balance:

TC 595 - YEC Close Debit Balance GL Account-Non-Shared Fund
Dr. 5530 Fund Balance-Unappropriated
Cr. (Input the correct Fund Balance account)

If Fund Balance-Unappropriated has a debit balance:

TC 596 - YEC Close Credit Balance GL Account-Non-Shared Fund
Dr. (Input the correct Fund Balance account)
Cr. 5530 Fund Balance-Unappropriated

If Retained Earnings has a credit balance:

TC 583 - Close Debit Bal GL Acct-Retained Earngs
Dr. 5540 Retained Earnings
Cr. (Input the correct Fund Balance account)

If Retained Earnings has a debit balance:

TC 584 - Close Credit Bal GL Acct-Retained Earngs
Dr. (Input the correct Fund Balance account)
Cr. 5540 Retained Earnings

These entries are **NOT** reversed in the new year.

PREPARE FINAL FM 13 SCO-CALSTARS RECONCILIATION

The additional FM 13 SCO reconciliation checks any reclassification entries entered during FM 13. Reconciling items found during this process that are not SCO reconciling items must be corrected with additional CALSTARS entries. Any entries affecting GL 9000-Expenditures must be manually cost allocated and fund split. The Accrual Worksheet is prepared from these final FM 13 reconciliations.